2004 Buy-back Illustrative Examples

Note:

- **These examples deal only with the taxation consequences of a disposal of TESOP shares in the Telstra Buy-back.**

- **The Buy-Back Price was $4.05. You should refer to section 1.9 of the Telstra Buy-Back Tender Booklet for an explanation of how the Buy-Back Price was determined.**

- **These examples assume that you were e entitled to the benefit of tax offsets arising from the franked distribution component of the Buy-Back Price. You should refer to section 2.7 "Limits on Availability of Franking Credits and Tax Offsets" on page 26 of the Telstra Buy-Back Tender Booklet for a discussion of these rules. This is particularly the case if you acquired *any* Telstra shares after 29 September 2004.**

- **If you made an election in your 1997/98 tax return (affecting your TESOP 97 Shares) or in your 1999/2000 tax return (affecting your TESOP 99 Shares) you may have a choice as to how you calculate your capital loss.**

  If you make a choice the tax cost will be the tax market value of the shares at the date you first acquired an interest in them. If you do not make a choice the tax cost for the shares will be the "tax market value" of those shares when the Restriction Period ends, not when you acquired your shares under TESOP. This means that if you make the choice in relation to a share, the relevant tax cost will be:

  - **the tax market value of the share at the date you first acquired an interest in them (i.e. $3.30 in respect of TESOP 97 shares and $7.40 in respect of TESOP 99 shares);**

  - **rather than the tax market value of the share at the date the Restriction Period ends (as set out in Class Ruling CR 2001/28 – available on the ATO website).**

- **The examples refer to the "CGT Value" and the "CGT Adjustment Amount". These expressions are discussed in more detail in "At a glance - Tax Consequences if you dispose of your Telstra ESOP97 or Telstra ESOP 99 Shares under the Telstra 2004 Buy-Back". The examples use a CGT Value of $4.80 and the CGT Adjustment Amount was $0.75 .**

- **The share prices and the tax market values used in the examples are for illustration purposes only.**
- **The tax market value of a share on a particular day is available from the Telstra Share Registry (Freecall 1300 303 199 * unless from a mobile phone which will be charged at the applicable mobile rate).**

- **The examples are based on income tax legislation and administrative practice as at 1 June 2005.**

- **If you decided to participate in the Buy-Back Tender, your particular tax treatment will depend upon your own circumstances. This will be the case particularly if you are a former employee. It is important that you seek professional tax advice to take into account your particular circumstances.**

Share Type	Current Employees Example	Former Employees Example
TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares	1	7

TESOP 97 Extra Non-Loan Shares	2	8
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Example 1

TESOP 97 Loan Shares & Extra Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares and were allocated 500 extra loan shares.
- You repaid your interest free loan (of $3,700) on 5 November 2004 so that you could tender your 2,000 TESOP 97 Loan Shares and 500 TESOP 97 Extra Loan Shares in the Telstra 2004 share Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- The tax market value (TMV) of Telstra shares on 5 November 2004 being the date the interest free loan was repaid was $4.75

  The TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the loan was repaid.
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component ; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 2,500 x ($2.55 + $1.09) = $9,100

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $2,725 (2,500 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71 cents per share on the dividend component.***

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value on the date the interest free loan was repaid less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is:(2,500 x $4.75) - (2,500 x $2.25) = $6,250

> *You may choose to calculate the capital loss on a different basis from that outlined above. In particular, you may choose the market value of the shares at the date you first acquired an interest in them (being*

$3.30) as the cost base of your shares. However, such a choice may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the sales proceeds for your shares ($2.25 per share being the sum of the capital component of the Buy-Back Price and the CGT Adjustment Amount) exceed the amount you paid for the shares, you will be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

Amount paid for Loan Shares = (2,000 x $3.30) less $1.00 = $6,599

Amount paid for your Extra Loan Shares = Nil

For your TESOP 97 Loan Shares, no deferred assessable amount will arise. This is because the sales proceeds (being $2.25 per share) does not exceed the amount you paid for the shares.

For your TESOP 97 Extra Loan Shares, you will be assessed on:

- (500 x $2.25) - 0 = $1,125

Capital gains tax consequences

In these circumstances, the sale will not have any CGT consequences for you because the sale was made within 30 days of the expiry of the restriction period (i.e. 5 November 2004 being the date the interest free loan was repaid).

Example 2

TESOP 97 Extra Non-Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 Non-Loan Shares. You did not take advantage of the Telstra loan.
- Consequently you were entitled to 500 Extra Non-Loan Shares.
- These shares were subject to a trade Restriction Period which expired on 15 November 2000 at which time the shares were transferred to you. The tax market value of the shares was $6.58 on 15 November 2000.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 500 TESOP 97 Extra Non-Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return should not affect the tax consequences arising from the disposal of these shares.

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 500 x ($2.55 + $1.09) = $1,820

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $545 (500 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax , the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when your restriction period expired for Extra Non-Loan Shares) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: - (500 x $6.58) - (500 x $2.25) = $2,165

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

If you elected to seek the $1,000 tax exemption in your 1997/98 tax return, you may choose, to calculate the capital loss on a different basis from that outlined above. In particular, you may choose the market value of the shares at the date you first acquired an interest in them (being $3.30) as the cost base of your shares. However, such a choice may result in you reducing your capital loss for tax purposes.

Example 3

TESOP 97 Loyalty Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1997 Public float of Telstra shares you purchased 2,000 shares under the public offer (at their public offer price of $3.30)
- You held your purchased shares for more than 12 months and consequently you were entitled, under the employee offer, to a further 200 Loyalty Shares. These shares were allotted to you on 17 November 1998 (the tax market value of the shares was $6.55 on 17 November 1998).
- These loyalty shares were **not** subject to a trade Restriction Period.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 97 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

You assessable income relating to the dividend component will be as follows:

- 200 x ($2.55 + $1.09) = $728

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $218 (200 x $1.09) for the franking credits.

Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable. ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $3.30 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $3.30) - (200 x $2.25) = $210

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.55 (being the tax market value of shares on 17 November 1998, the date TESOP 97 Loyalty Shares were allotted) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $6.55) - (200 x $2.25) = $860

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 4

TESOP 99 – Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 TESOP 99 Loan Shares.
- You repaid your interest free loan (of $2,630) on 5 November 2004 so that you could tender your 400 TESOP 99 Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- The tax market value (TMV) of Telstra shares on 5 November 2004 being the date the interest free loan was repaid was $4.75.

  The TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the loan was repaid.
- Your tender was successful and you sold your shares at the Buy-Back Price of $4.05 per share. The gross proceeds for the sale of the shares were $1,620. **This is less than the amount you were required to repay to the TESOP Trustee to repay your interest free loan.** The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 400 x ($2.55 + $1.09) = $1,456

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $436 (400 x $1.09) for the franking credits.

Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable. ***You could be liable to pay tax of up to 71cents per share on the dividend component.***

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 (being the tax market value of the share at 16 October 1999) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (400 x $7.40) - (400 x $2.25) = $2,060

If you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the sales proceeds for your shares ($2.25 being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount)) exceed the amount you paid for the shares, you will be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

Amount paid for Loan Shares = (400 x $7.40) less $1.00 = $2,959

For your TESOP 99 Loan Shares, no deferred assessable amount will arise. This is because the sales proceeds do not exceed the amount you paid for the shares.

Capital Gains Tax Consequences

In these circumstances the sale will not have any CGT consequences for you because the sale was made within 30 days of the expiry of the restriction period (i.e. the loan being repaid).

Example 5

TESOP 99 – Extra Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- Consequently you were entitled to 200 TESOP 99 Extra Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 99 extra shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 200 x ($2.55 + $1.09) = $728

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $218 (200 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $7.40) - (200 x $2.25) = $1,030

> *If you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.*

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

<u>If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount)

- Consequently, your capital loss is:(200 x $4.81) - (200 x $2.25) = $512

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 6

TESOP 99 – Loyalty Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- You held these shares for longer than 12 months and therefore you were entitled to 80 TESOP 99 loyalty shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 80 TESOP 99 loyalty shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 80 x ($2.55 + $1.09) = $291

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $87 (80 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (80 x $7.40) - (80 x $2.25)= $412

If you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

<u>If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

The taxation consequences of receiving the assessable dividend are described above.

The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (80 x $4.81) - (80 x $2.25) = $204.80

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 7

TESOP 97 Loan Shares & Extra Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004. (The tax market value for Telstra Shares on that date was $4.96.)
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan Shares and were allocated 500 Extra Loan Shares.
- You repaid your TESOP 97 loan on 13 August 2004 (the tax market value for Telstra shares on that date was $5.00) and the TESOP Trustee transferred your TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares to you.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 2,000 TESOP 97 Loan Shares and 500 TESOP 97 Extra Loan Shares in the Telstra share Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 2,500 x ($2.55 + $1.09) = $9,100

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $2,725 (2,500 x $1.09) for the franking credits.

> Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable. **You could be liable to pay tax of up to 71cents per share on the dividend component**.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you repaid your TESOP loan ($5.00) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (2,500 x $5.00) - (2,500 x $2.25) = $6,875

> *You may choose to calculate the capital loss on a different basis from that outlined above. In particular, you may choose the market value of the shares at the date you first acquired an interest in*

them (being $3.30) as the cost base of your shares. However, such a choice may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

You will be assessed on the excess of the tax market value of the shares on the date you ceased employment (i.e. 2 August 2004) over what you paid for the shares.

Amount paid for Loan Shares = (2,000 x $3.30) less $1.00 = $6,599

Amount paid for your Extra Loan Shares = Nil

For your TESOP 97 Loan Shares, you will be assessed on:

- (2,000 x $4.96) - $6,599 = $3,321

For your TESOP 97 Extra Loan Shares, you will be assessed on:

- (500 x $4.96) - 0 = $2,480

Capital gains tax consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you ceased employment less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (2,500 x $4.96) - (2,500 x $2.25) = $6,775

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 8

TESOP 97 Extra Non-Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004.
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 Non-Loan Shares. You did not take advantage of the Telstra loan.
- Consequently you were entitled to 500 Extra Non-Loan Shares.
- These shares were subject to a trade Restriction Period which expired on 15 November 2000 at which time the shares were transferred to you. The tax market value of the shares was $6.58 on 15 November 2000.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 500 TESOP 97 Extra Non-Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return should not affect the tax consequences arising from the disposal of these shares.

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 500 x ($2.55 + $1.09) = $1,820

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $545 (500 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when your restriction period would have expired for Extra Non-Loan Shares) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (500 x $6.58) - (500 x $2.25) = $2,165

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

If you elected to seek the $1,000 tax exemption in your 1997/98 tax return, you may choose to calculate the capital loss on a different basis from that outlined above. In particular, you may choose the market value of the shares at the date you first acquired an interest in them (being $3.30) as the cost base of your shares . However, such a choice may result in you reducing your capital loss for tax purposes.

Example 9

TESOP 97 Loyalty Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004.
- As part of the 1997 Public float of Telstra shares you purchased 2,000 shares under the public offer (at their public offer price of $3.30)
- You held your purchased shares for more than 12 months and consequently you were entitled, under the employee offer, to a further 200 Loyalty Shares. These shares were allotted to you on 17 November 1998 (the tax market value of the shares was $6.55 on 17 November 1998).
- These Loyalty Shares were **not** subject to a trade Restriction Period.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 97 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return</u>

Assessable dividend

You assessable income relating to the dividend component will be as follows:

- 200 x ($2.55 + $1.09) = $728

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $218 (200 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component.***

Capital Gains Tax Consequences

Your capital loss from the sale will equal $3.30 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $3.30) - (200 x $2.25) = $210

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price do not vary depending upon whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.55 (being the tax market value of shares on 17 November 1998, the date TESOP 97 Loyalty Shares were allotted) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $6.55) - (200 x $2.25) = $860

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 10

TESOP 99 – Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004. (The tax market value for Telstra shares on that date was $4.96.)
- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 TESOP 99 Loan Shares.
- You repaid your interest free loan (of $2,630) on 5 November 2004 so that you could tender your 400 TESOP 99 Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- The tax market value (TMV) of Telstra shares at the time the loan was repaid is $4.75 for the purposes of this example.

  The TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the loan was repaid.
- Your tender was successful and the TESOP Trustee sold your shares at the Buy-Back Price of $4.05 per share. The gross proceeds for the sale of the shares were $1,620. **This is less than the amount you were required to repay to the TESOP Trustee up-front.** The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 400 x ($2.55 + $1.09) = $1,456

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $436 (400 x $1.09) for the franking credits.

> Depending on your marginal rate of tax, the dividend component may give rise to a tax or to a refund/offset against other tax payable. **You could be liable to pay tax of up to 71cents per share on the dividend component**.

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is:(400 x $7.40) - (400 x $2.25) = $2,060

If you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the tax market value of the shares on the date you ceased employment (i.e. 2 August 2004) exceeds the amount you paid for the shares, you would be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

Amount paid for Loan Shares = (400 x $7.40) less $1.00 = $2,959

For your TESOP 99 Loan Shares, no deferred assessable amount will arise in this case. This is because the tax market value of the shares at the date of the cessation of employment does not exceed the amount you paid for the shares.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you ceased employment less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is:(400 x $4.96) - (400 x $2.25) = $1,084

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 11

TESOP 99 – Extra Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- Consequently you were entitled to 200 TESOP 99 Extra Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 99 Extra Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05 per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 200 x ($2.55 + $1.09) = $728

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $218 (200 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax.* ***You could be liable to pay tax of up to 71cents per share on the dividend component.***

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is:(200 x $7.40) - (200 x $2.25) = $1,030.

If you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced, where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (200 x $4.81) - (200 x $2.25) = $512

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 12

TESOP 99 – Loyalty Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 2 August 2004.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- You held these shares for longer than 12 months and therefore you were entitled to 80 TESOP 99 Loyalty Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 80 TESOP 99 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section 1.10 of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.05[1] per share. The Buy-Back Price consists of:
  - $1.50 capital component; and
  - $2.55 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.09).
- The CGT value is $4.80, resulting in a CGT Adjustment Amount of $0.75 (being the CGT value of $4.80 less the Buy-Back Price of $4.05).
- For tax purposes the sales proceeds for the shares are deemed to be $2.25 (being the sum of the capital component and the CGT Adjustment Amount).

<u>Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 80 x ($2.55 + $1.09) = $291

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $87 (80 x $1.09) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 71cents per share on the dividend component****.*

Capital Gains Tax Consequences

You <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (80 x $7.40) - (80 x $2.25) = $412

In this example, if you don't choose the market value of the shares at the date you first acquired an interest in them (being $7.40) as the cost base of your shares, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

<u>If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return</u>

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less $2.25 (being the sum of the $1.50 capital component of the Buy-Back Price and the CGT Adjustment Amount).

- Consequently, your capital loss is: (80 x $4.81) - (80 x $2.25)= $204.80

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.